

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Auburn	County Bay
Fiscal Year End June 30, 2006	Opinion Date September 22, 2006	Date Audit Report Submitted to Sate 12/6/06	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-----|-------------------------------------|--------------------------|---|
| 1. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary. |
| 2. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures. |
| 3. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury. |
| 4. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has adopted a budget for all required funds. |
| 5. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | A public hearing on the budget was held in accordance with State statute. |
| 6. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division. |
| 7. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit. |
| 8. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit only holds deposits/investments that comply with statutory requirements. |
| 9. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the <i>Bulletin for Audits of Local Units of Government in Michigan</i> , as revised (see Appendix H of Bulletin). |
| 10. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover. |
| 11. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit is free of repeated comments from previous years. |
| 12. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The audit opinion is UNQUALIFIED. |
| 13. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). |
| 14. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | The board or council approves all invoices prior to payment as required by charter or statute. |
| 15. | <input checked="" type="checkbox"/> | <input type="checkbox"/> | To our knowledge, bank reconciliations that were reviewed were performed timely. |

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Yeo & Yeo, P.C.		Telephone Number 989-793-9830	
Street Address 3023 Davenport		City Saginaw	State MI
Authorizing CPA Signature 		Printed Name Mari McKenzie	License Number 10725

City of Auburn

Auburn, Michigan

**Annual Financial Statements
and
Auditors' Report**

June 30, 2006

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City of Auburn
List of Elected and Appointed Officials
June 30, 2006

City Council

John McNally	Mayor
Richard Fletcher	Commissioner
Ann Machelski	Commissioner
B.J. Raab	Commissioner
William Reder	Commissioner
Sandra Henning	Commissioner
James Zoller	Commissioner

Other Officers and Officials

JoElla Krantz	City Administrator
Lucille Wiesenauer	City Clerk/Treasurer

Independent Auditors' Report

To the Honorable Mayor and Members of the City Council
City of Auburn

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Auburn as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Auburn as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 22, 2006 on our consideration of the City of Auburn internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Auburn's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Yeo & Yeo, P.C.

September 22, 2006
Saginaw, Michigan

City of Auburn
Management's Discussion and Analysis
June 30, 2006

As management of the City of Auburn, Michigan, we offer readers of the City's financial statement this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's basic financial statements, which begin immediately following this analysis. This annual financial report consists of four parts – Management's Discussion and Analysis (this section), the Basic Financial Statements, Required Supplemental Information and Other Supplemental Information.

Financial Highlights

- This City's financial statements are prepared using two different accounting standards resulting in fund financial statements and government-wide statements.
- Government-wide financial statements are comprised of governmental activities and business-type activities. Governmental activities include General Fund activities such as Public Safety and Parks and Recreation. Business-type activities include proprietary funds such as Water and Sewer.
 - In total, the assets of the City exceed its liabilities by \$4,560,173 at the close of the most recent fiscal year.
 - \$2,684,097 is invested in Capital Assets, net of related debt;
 - \$288,292 is restricted for specific purposes.
 - \$1,587,784 is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors, subject to the purpose of the fund in which they are located. This balance is comprised of \$1,228,933 in governmental activities and \$358,851 in business-type activities.
 - The City's total net assets increased by \$366,069 during the year, primarily due to increased infrastructure.
 - The City's bonded debt decreased by \$107,529 (new issues less retirements), during the fiscal year.
- Fund financial statements are comprised of 8 governmental funds and 3 proprietary funds. Governmental funds include the General Fund, Major and Local Street Funds, Street Repair Millage Fund, and other special revenue and debt service funds.
 - At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$1,182,578.
 - Of the fund balance amount, \$894,286 is unreserved and may be used to meet the government's ongoing obligations to citizens and creditors, subject to the purpose of the fund in which they are located.
 - The City's major funds, the General Fund (\$586,635), Major Street Fund (\$52,540), Local Street Fund (\$19,217) and the Street Repair Millage Fund (\$225,880) account for 99% of this unreserved balance. The remaining amount is represented across the other 4 non-major funds.
 - The general fund recognized a gain of \$43,121. At the end of the current fiscal year, unreserved general fund balance was 72% of the total general fund expenditures.

City of Auburn
Management's Discussion and Analysis
June 30, 2006

Overview of the Basic Financial Statement

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements.

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets includes all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases in net assets may serve as a useful indicator of whether the City's financial position is improving or deteriorating. Net assets are displayed in three categories:

- Invested in Capital Assets, Net of Related Debt
- Restricted
- Unrestricted

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (**governmental activities**) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (**business-type activities**). The governmental activities of the City include: general government, public safety, streets, sanitation and recreation. The business-type activities of the City include: a water and sewer system and motor pool.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Downtown Development Authority. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

City of Auburn
Management's Discussion and Analysis
June 30, 2006

Fund Financial Statement. The fund financial statements provide more detailed information about the City's major funds individually. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Auburn, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus on governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Auburn maintains eight (8) individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Street Fund, Local Street Fund and the Street Repair Millage Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annual appropriated budget for its general fund and special revenue funds. A budgetary comparison statement has been provided for the general and other major funds to demonstrate compliance with this budget.

Proprietary funds. The City of Auburn maintains three (3) proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer activity. The internal service fund is an accounting device used to accumulate and allocate costs internally among the City's various functions. The City of Auburn uses an internal service fund to account for its fleet of vehicles and other equipment.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

City of Auburn
Management's Discussion and Analysis
June 30, 2006

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Analysis of the Government-Wide Financial Statements

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current and other assets	\$ 1,638,034	\$ 1,655,525	\$ 132,051	\$ 397,929	\$ 1,770,085	\$ 2,053,454
Capital assets	903,148	575,810	2,922,645	2,705,528	3,825,793	3,281,338
Total assets	<u>2,541,182</u>	<u>2,231,335</u>	<u>3,054,696</u>	<u>3,103,457</u>	<u>5,595,878</u>	<u>5,334,792</u>
Liabilities						
Current liabilities	52,093	59,521	58,200	56,231	110,293	115,752
Long-term liabilities	873,219	945,143	52,193	79,793	925,412	1,024,936
Total liabilities	<u>925,312</u>	<u>1,004,664</u>	<u>110,393</u>	<u>136,024</u>	<u>1,035,705</u>	<u>1,140,688</u>
Net assets						
Invested in capital assets -						
Net of related debt	98,645	(308,622)	2,585,452	2,600,735	2,684,097	2,292,113
Restricted	288,292	2,968	-	-	288,292	2,968
Unrestricted	1,228,933	1,532,325	358,851	366,698	1,587,784	1,899,023
Total net assets	<u>\$ 1,615,870</u>	<u>\$ 1,226,671</u>	<u>\$ 2,944,303</u>	<u>\$ 2,967,433</u>	<u>\$ 4,560,173</u>	<u>\$ 4,194,104</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City Of Auburn, assets exceeded liabilities by \$4,560,173 at the close of the most recent fiscal year. City of Auburn's increase in net assets for this fiscal year amounts to \$366,069.

The largest portion of the City's net assets (59%) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any accumulated depreciation and related debt used to acquire those assets that is still outstanding. The City used these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets \$288,292 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$1,587,784 may be used to meet the City's ongoing obligations to citizens and creditors.

City of Auburn
Management's Discussion and Analysis
June 30, 2006

City's Changes in Net Assets:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue						
Charges for services	\$ 138,104	\$ 107,057	\$ 522,091	\$ 587,674	\$ 660,195	\$ 694,731
Operating grants and contributions	146,520	141,889	-	-	146,520	141,889
General revenue						
Property taxes	717,126	685,035	-	-	717,126	685,035
State-shared revenue	226,101	198,385	-	-	226,101	198,385
Interest	38,494	22,642	5,288	3,956	43,782	26,598
Miscellaneous	36,163	66,173	2,090	1,011	38,253	67,184
Transfers	(12,400)	(12,400)	12,400	12,400	-	-
Total revenue	<u>1,290,108</u>	<u>1,208,781</u>	<u>541,869</u>	<u>605,041</u>	<u>1,831,977</u>	<u>1,813,822</u>
Program expenses						
General government	193,611	168,578	-	-	193,611	168,578
Public safety	229,014	239,272	-	-	229,014	239,272
Public works	350,055	307,369	-	-	350,055	307,369
Community and economic development	7,075	6,611	-	-	7,075	6,611
Recreation and culture	71,317	74,623	-	-	71,317	74,623
Interest on long-term debt	49,837	54,570	-	-	49,837	54,570
Water and sewer	-	-	564,999	531,775	564,999	531,775
Total program expenses	<u>900,909</u>	<u>851,023</u>	<u>564,999</u>	<u>531,775</u>	<u>1,465,908</u>	<u>1,382,798</u>
Change in net assets	<u>\$ 389,199</u>	<u>\$ 357,758</u>	<u>\$ (23,130)</u>	<u>\$ 73,266</u>	<u>\$ 366,069</u>	<u>\$ 431,024</u>

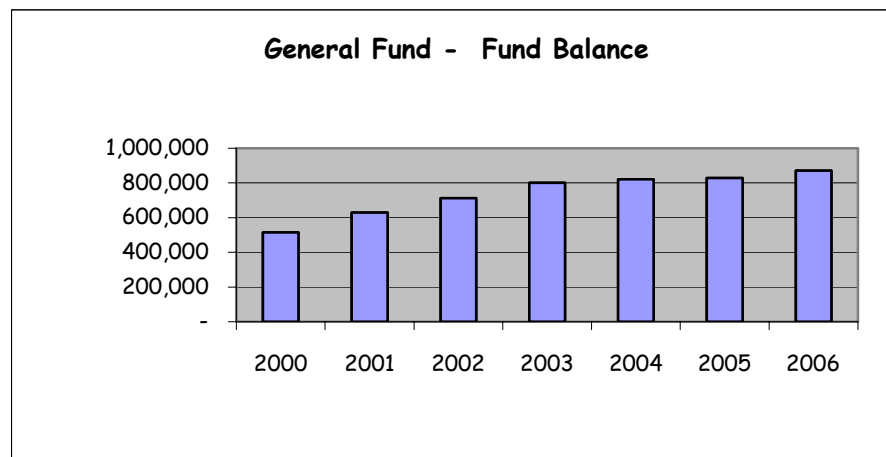
Governmental Activities. Governmental activities increased the City's net assets by \$389,199.

City of Auburn
Management's Discussion and Analysis
June 30, 2006

City of Auburn Funds

General Fund

The General Fund is the chief operating fund of the City. As of the end of the fiscal year, total fund balance for the General Fund was \$871,635, an increase of \$43,121 over prior year balance, a 5% increase over the previous year. Following is a chart of the General Fund fund balance trend over the past seven years.



Major and Local Street Funds

The State of Michigan provides municipalities revenues from gas and weight taxes to reimburse expenditures for the maintenance and construction of the local street system. The State requires that these expenditures be segregated into a Major Street component and a Local street component. The City uses the funds for improvements to the City street system, along with contributions from the Street Repair Millage Fund. Major Street fund balance had a decrease of \$61,970 and the Local Street fund balance had a decrease of \$11,622 due mainly to street improvement projects.

Street Repair Millage Fund

The City's millage for road construction and improvements are accounted for in this fund. The decrease in fund balance of \$101,533 was for transfers to the Major and Local Funds for street improvement projects.

City of Auburn
Management's Discussion and Analysis
June 30, 2006

Business-type activities. Business-type activities decreased the City's net assets by \$23,130. The Water Fund continued to invest capital assets to replace its aging infrastructure. The Sewer Fund will continue to build capital reserves for future replacement and repairs of the Nine Mile Road pump station.

Budgetary Highlights

Budget and actual comparison statements are provided in the Budgetary Comparison Schedule for the General Fund and all major special revenue funds with annually appropriated budgets. These statements show the original budget, final budget, actual amounts, and the variances between actual and final budgeted amounts. Operating the City is a dynamic undertaking and budget amendments are approved throughout the year. Budgets are revised for a variety of reasons, such as unanticipated revenues or unforeseen expenditures. Over the course of the fiscal year the City Commission revised the budget two times.

Capital Asset and Debt Administration

Capital assets. At June 30, 2006 the City had \$3.8 million invested in capital assets, including buildings, equipment, park and recreation facilities and water and sewer lines.

Long-Term Debt. At June 30, 2006, the City of Auburn had total bonded debt outstanding of \$856,696. Additional information can be found in the Notes to the Financial Statements, Note 8.

Economic Factors

The General Operating Fund of the City is primarily reliant on distributions of state shared revenues and property taxes. State shared revenues have continued to decline. State revenues are at their lowest since 1970. At this writing, the State of Michigan's revenues are, once again, falling below projections. This may impact Auburn through further reductions in State revenue sharing. To date these revenue reductions have been masked because of our growth and increased property tax revenues. The City will continue to monitor revenues and expenditures to ensure the City maintains a balanced budget.

Financial Contact

The City's financial statements are designed to present users (citizens, taxpayers, customers, investors, and creditors) with a general overview of the City's finances and to demonstrate the City's accountability. If you have questions about the report or need additional financial information, please contact the City's Administrator at 113 E. Elm Street, Auburn, Michigan 48611.

City of Auburn
Statement of Net Assets
June 30, 2006

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 1,208,988	\$ 281,741	\$ 1,490,729	\$ 443,648
Receivables				
Taxes	25,018	-	25,018	-
Customers	21,371	77,826	99,197	-
Special assessments	23,985	-	23,985	-
Accrued interest and other	2,231	-	2,231	1,104
Due from other units of government	84,688	-	84,688	-
Internal balances	265,686	(265,686)	-	-
Prepaid items	6,067	38,170	44,237	-
Nondepreciable capital assets	61,570	36,000	97,570	13,000
Depreciable capital assets, net	841,578	2,886,645	3,728,223	11,575
Total assets	<u>2,541,182</u>	<u>3,054,696</u>	<u>5,595,878</u>	<u>469,327</u>
Liabilities				
Accounts payable	23,731	56,885	80,616	163
Accrued and other liabilities	26,751	1,201	27,952	-
Due to other units of government	1,611	114	1,725	-
Noncurrent liabilities				
Due within one year	79,929	27,600	107,529	-
Due in more than one year	793,290	24,593	817,883	-
Total liabilities	<u>925,312</u>	<u>110,393</u>	<u>1,035,705</u>	<u>163</u>
Net Assets				
Invested in capital assets, net of related debt	98,645	2,585,452	2,684,097	-
Restricted for:				
Debt service	3,292	-	3,292	-
Long-term advances	285,000	-	285,000	-
Unrestricted	1,228,933	358,851	1,587,784	469,164
Total net assets	<u>\$ 1,615,870</u>	<u>\$ 2,944,303</u>	<u>\$ 4,560,173</u>	<u>\$ 469,164</u>

See Accompanying Notes to Financial Statements

City of Auburn
Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
					Governmental Activities	Business-type Activities	Total	
Primary government								
Governmental activities								
General government	\$ 193,611	\$ 18,151	\$ -	\$ -	\$ (175,460)	\$ -	\$ (175,460)	\$ -
Public safety	229,014	2,970	-	-	(226,044)	-	(226,044)	-
Public works	350,055	108,334	146,520	-	(95,201)	-	(95,201)	-
Community and economic development	7,075	725	-	-	(6,350)	-	(6,350)	-
Recreation and culture	71,317	7,924	-	-	(63,393)	-	(63,393)	-
Interest on long-term debt	49,837	-	-	-	(49,837)	-	(49,837)	-
Total governmental activities	900,909	138,104	146,520	-	(616,285)	-	(616,285)	-
Business-type activities								
Sewer	271,174	247,120	-	-	-	(24,054)	(24,054)	-
Water	293,825	274,971	-	-	-	(18,854)	(18,854)	-
Total business-type activities	564,999	522,091	-	-	-	(42,908)	(42,908)	-
Total primary government	\$ 1,465,908	\$ 660,195	\$ 146,520	\$ -	(616,285)	(42,908)	(659,193)	-
Component unit								
Downtown Development Authority	\$ 310,540	\$ -	\$ -	\$ -				(310,540)
General revenues								
Property taxes					717,126	-	717,126	177,818
State shared revenue					226,101	-	226,101	-
Unrestricted investment earnings					38,494	5,288	43,782	12,806
Miscellaneous					36,163	2,090	38,253	-
Transfers					(12,400)	12,400	-	-
Total general revenues and transfers					1,005,484	19,778	1,025,262	(119,916)
Change in net assets					389,199	(23,130)	366,069	(119,916)
Net assets - beginning of year					1,226,671	2,967,433	4,194,104	589,080
Net assets - end of year					\$ 1,615,870	\$ 2,944,303	\$ 4,560,173	\$ 469,164

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Balance Sheet
June 30, 2006

	Special Revenue Funds				Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street	Local Street	Street Repair Millage		
Assets						
Cash and cash equivalents	\$ 548,934	\$ 39,950	\$ 12,181	\$ 218,156	\$ 13,103	\$ 832,324
Receivables						
Taxes	17,294	-	-	7,724	-	25,018
Customers	21,168	-	-	-	203	21,371
Special assessments	23,985	-	-	-	-	23,985
Accrued interest and other	2,231	-	-	-	-	2,231
Due from other units of government	61,550	16,487	6,651	-	-	84,688
Due from other funds	-	-	4,122	-	-	4,122
Prepaid items	4,508	463	670	-	-	5,641
Advances to other funds	285,000	-	-	-	-	285,000
 Total assets	 <u>\$ 964,670</u>	 <u>\$ 56,900</u>	 <u>\$ 23,624</u>	 <u>\$ 225,880</u>	 <u>\$ 13,306</u>	 <u>\$ 1,284,380</u>

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Balance Sheet
June 30, 2006

	Special Revenue Funds				Nonmajor	Total
	General	Major Street	Local Street	Street Repair Millage	Governmental Funds	Governmental Funds
Liabilities						
Accounts payable	\$ 19,388	\$ -	\$ 3,601	\$ -	\$ -	\$ 22,989
Accrued and other liabilities	11,970	218	744	-	-	12,932
Due to other funds	-	4,122	-	-	-	4,122
Due to other units of government	1,475	20	62	-	-	1,557
Deferred revenue	60,202	-	-	-	-	60,202
Total liabilities	93,035	4,360	4,407	-	-	101,802
Fund Balances						
Reserved for:						
Debt service	-	-	-	-	3,292	3,292
Long-term advances	285,000	-	-	-	-	285,000
Unreserved, reported in:						
General fund	586,635	-	-	-	-	586,635
Special revenue funds	-	52,540	19,217	225,880	10,014	307,651
Total fund balances	871,635	52,540	19,217	225,880	13,306	1,182,578
Total liabilities and fund balances	\$ 964,670	\$ 56,900	\$ 23,624	\$ 225,880	\$ 13,306	\$ 1,284,380

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Reconciliation of Fund Balances of Governmental Funds
to Net Assets of Governmental Activities
June 30, 2006

Total fund balances for governmental funds	\$ 1,182,578
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	654,684
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	60,202
Certain liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued interest	(13,116)
Compensated absences	(68,716)
Long-term liabilities applicable to governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities.	(804,503)
Internal service funds are included as part of governmental activities.	<u>604,741</u>
Net assets of governmental activities	<u><u>\$ 1,615,870</u></u>

City of Auburn
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2006

	Special Revenue Funds				Nonmajor Governmental Funds	Total Governmental Funds
	General	Major Street	Local Street	Street Repair Millage		
Revenues						
Taxes	\$ 472,684	\$ -	\$ -	\$ 244,442	\$ -	\$ 717,126
Licenses and permits	20,196	-	-	-	413	20,609
State revenue sharing	189,884	99,851	40,281	-	-	330,016
Other state grants	-	2,108	4,280	-	-	6,388
Charges for services	108,879	-	-	-	-	108,879
Fines and forfeitures	692	-	-	-	-	692
Interest income	25,461	512	102	6,348	87	32,510
Rental income	5,629	-	-	-	-	5,629
Other revenue	35,507	103	148	-	-	35,758
Total revenues	<u>858,932</u>	<u>102,574</u>	<u>44,811</u>	<u>250,790</u>	<u>500</u>	<u>1,257,607</u>

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2006

	Special Revenue Funds				Nonmajor	Total
	General	Major Street	Local Street	Street Repair Millage	Governmental Funds	Governmental Funds
Expenditures						
Current						
General government	\$ 186,846	\$ -	\$ -	\$ -	\$ -	\$ 186,846
Public safety	234,923	-	-	-	3,944	238,867
Public works	218,803	61,440	88,310	-	-	368,553
Community and economic development	7,075	-	-	-	-	7,075
Recreation and culture	63,036	-	-	-	-	63,036
Capital outlay	46,747	78,141	259,409	-	-	384,297
Debt service						
Principal retirement	-	-	-	-	79,929	79,929
Interest and fiscal charges	-	-	-	-	51,803	51,803
Total expenditures	<u>757,430</u>	<u>139,581</u>	<u>347,719</u>	<u>-</u>	<u>135,676</u>	<u>1,380,406</u>
Excess (deficiency) of revenues over expenditures	<u>101,502</u>	<u>(37,007)</u>	<u>(302,908)</u>	<u>250,790</u>	<u>(135,176)</u>	<u>(122,799)</u>
Other financing sources (uses)						
Transfers in	-	-	291,286	-	131,981	423,267
Transfers out	<u>(58,381)</u>	<u>(24,963)</u>	<u>-</u>	<u>(352,323)</u>	<u>-</u>	<u>(435,667)</u>
Total other financing sources and uses	<u>(58,381)</u>	<u>(24,963)</u>	<u>291,286</u>	<u>(352,323)</u>	<u>131,981</u>	<u>(12,400)</u>
Net change in fund balance	43,121	(61,970)	(11,622)	(101,533)	(3,195)	(135,199)
Fund balance - beginning of year	<u>828,514</u>	<u>114,510</u>	<u>30,839</u>	<u>327,413</u>	<u>16,501</u>	<u>1,317,777</u>
Fund balance - end of year	<u>\$ 871,635</u>	<u>\$ 52,540</u>	<u>\$ 19,217</u>	<u>\$ 225,880</u>	<u>\$ 13,306</u>	<u>\$ 1,182,578</u>

See Accompanying Notes to Financial Statements

City of Auburn
Governmental Funds
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - Total governmental funds \$ (135,199)

Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(36,751)
Capital outlay	404,157

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue
in the funds.

State shared revenue	36,217
Special assessments	2,700

Expenses are recorded when incurred in the statement of activities

Accrued interest	1,966
Compensated absences	(8,005)

Bond proceeds are reported as financing sources in the governmental funds and thus contribute to the change in
fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not
affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds
but reduces the liability in the statement of net assets.

Repayments of long-term debt	79,929
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Internal service funds are also included as governmental activities	<u>44,185</u>
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Change in net assets of governmental activities	<u>\$ 389,199</u>
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See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Net Assets
June 30, 2006

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Assets				
Current assets				
Cash and cash equivalents	\$ 221,299	\$ 60,442	\$ 281,741	\$ 376,664
Receivables				
Customers	20,559	57,267	77,826	-
Prepaid items	37,535	635	38,170	426
Total current assets	279,393	118,344	397,737	377,090
Noncurrent assets				
Nondepreciable capital assets	36,000	-	36,000	-
Depreciable capital assets, net	1,079,421	1,807,224	2,886,645	248,464
Total noncurrent assets	1,115,421	1,807,224	2,922,645	248,464
Total assets	1,394,814	1,925,568	3,320,382	625,554
Liabilities				
Current liabilities				
Accounts payable	40,010	16,875	56,885	742
Accrued and other liabilities	489	712	1,201	703
Due to other units of government	43	71	114	54
Current portion of noncurrent liabilities	27,600	-	27,600	-
Total current liabilities	68,142	17,658	85,800	1,499
Noncurrent liabilities				
Advances from other funds	-	285,000	285,000	-
Long-term debt net of current portion	24,593	-	24,593	-
Total noncurrent liabilities	24,593	285,000	309,593	-
Total liabilities	92,735	302,658	395,393	1,499

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Net Assets
June 30, 2006

	<u>Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	
Net Assets				
Invested in capital assets, net of related debt	\$ 1,063,228	\$ 1,522,224	\$ 2,585,452	\$ 248,464
Unrestricted	<u>238,851</u>	<u>100,686</u>	<u>339,537</u>	<u>375,591</u>
Total net assets	<u>\$ 1,302,079</u>	<u>\$ 1,622,910</u>	2,924,989	<u>\$ 624,055</u>
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities			<u>19,314</u>	
Net assets of business-type activities			<u>\$ 2,944,303</u>	

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2006

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Operating revenue				
Customer fees	\$ 246,220	\$ 273,156	\$ 519,376	\$ -
Billings to other funds	-	-	-	181,271
Connection fees	900	1,815	2,715	-
Rental income	150	-	150	-
Other revenue	33	1,907	1,940	94
	<u>247,303</u>	<u>276,878</u>	<u>524,181</u>	<u>181,365</u>
Total operating revenue				
Operating expenses				
Personnel services	33,244	50,069	83,313	26,576
Supplies	3,340	14,857	18,197	28,892
Contractual services	160,971	158,155	319,126	1,025
Utilities	4,165	214	4,379	3,646
Repairs and maintenance	30,291	23,925	54,216	20,675
Other expenses	882	3,987	4,869	13,291
Depreciation	36,223	42,346	78,569	40,559
	<u>269,116</u>	<u>293,553</u>	<u>562,669</u>	<u>134,664</u>
Total operating expenses				
Operating income (loss)	<u>(21,813)</u>	<u>(16,675)</u>	<u>(38,488)</u>	<u>46,701</u>

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Revenues, Expenses and Changes in Fund Net Assets
For the Year Ended June 30, 2006

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
Nonoperating revenue (expenses)				
Interest income	\$ 4,757	\$ 531	\$ 5,288	\$ 5,984
Interest expense	(4,580)	(6,250)	(10,830)	-
Total nonoperating revenues (expenses)	177	(5,719)	(5,542)	5,984
Income (loss) before transfers in	(21,636)	(22,394)	(44,030)	52,685
Transfers in	-	12,400	12,400	-
Change in net assets	(21,636)	(9,994)	(31,630)	52,685
Net assets - beginning of year	1,323,715	1,632,904		571,370
Net assets - end of year	\$ 1,302,079	\$ 1,622,910		\$ 624,055
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			8,500	
Change in net assets of business-type activities			\$ (23,130)	

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
Cash flows from operating activities				
Receipts from customers	\$ 250,576	\$ 257,436	\$ 508,012	\$ 94
Receipts from interfund users	-	-	-	181,271
Payments to suppliers	(187,531)	(177,848)	(365,379)	(67,889)
Payments to employees	(33,244)	(50,069)	(83,313)	(26,576)
Payments for interfund services used	(9,816)	(23,288)	(33,104)	-
Net cash provided by operating activities	<u>19,985</u>	<u>6,231</u>	<u>26,216</u>	<u>86,900</u>
Cash flows from noncapital financing activities				
Transfer from other funds	<u>-</u>	<u>12,400</u>	<u>12,400</u>	<u>-</u>
Cash flows from capital and related financing activities				
Advances from other funds	-	210,000	210,000	-
Purchases/construction of capital assets	(2,059)	(293,627)	(295,686)	(491)
Principal and interest paid on long-term debt	(32,180)	(6,250)	(38,430)	-
Repayment of interfund borrowings	<u>-</u>	<u>(25,000)</u>	<u>(25,000)</u>	<u>-</u>
Net cash used by capital and related financing activities	<u>(34,239)</u>	<u>(114,877)</u>	<u>(149,116)</u>	<u>(491)</u>
Cash flows from investing activities				
Interest received	<u>4,757</u>	<u>531</u>	<u>5,288</u>	<u>5,984</u>
Net increase (decrease) in cash and cash equivalents	(9,497)	(95,715)	(105,212)	92,393
Cash and cash equivalents - beginning of year	<u>230,796</u>	<u>156,157</u>	<u>386,953</u>	<u>284,271</u>
Cash and cash equivalents - end of year	<u>\$ 221,299</u>	<u>\$ 60,442</u>	<u>\$ 281,741</u>	<u>\$ 376,664</u>

See Accompanying Notes to Financial Statements

City of Auburn
Proprietary Funds
Statement of Cash Flows
For the Year Ended June 30, 2006

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ (21,813)	\$ (16,675)	\$ (38,488)	\$ 46,701
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	36,223	42,346	78,569	40,559
Changes in assets and liabilities				
Receivables (net)	3,273	(19,442)	(16,169)	-
Prepaid items	167	168	335	197
Accounts payable	2,902	351	3,253	(716)
Accrued and other liabilities	(714)	(482)	(1,196)	153
Due to other units of government	(53)	(35)	(88)	6
Net cash provided by operating activities	<u>\$ 19,985</u>	<u>\$ 6,231</u>	<u>\$ 26,216</u>	<u>\$ 86,900</u>

See Accompanying Notes to Financial Statements

City of Auburn
Fiduciary Funds
Statement of Assets and Liabilities
June 30, 2006

	<u>Payroll</u>
Assets	
Cash and cash equivalents	\$ 6,058
Receivables	
Accrued interest and other	<u>154</u>
 Total assets	 <u><u>\$ 6,212</u></u>
 Liabilities	
Due to other units of government	<u><u>\$ 6,212</u></u>

See Accompanying Notes to Financial Statements

City of Auburn
Notes to Financial Statements
June 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting entity

City of Auburn is governed by an elected seven-member Commission. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

Discretely Presented Component Units – The component unit column in the entity wide financial statements include the financial data of the City's Downtown Development Authority. This unit is reported in a separate column to emphasize that it is legally separate from the City. The members of the Governing Board of the Downtown Development Authority are appointed by the City Council. The budgets and expenditures of the Downtown Development Authority must be approved by the City Council. The City also has the ability to significantly influence operations of the Downtown Development Authority. The Downtown Development Authority does not issue any other form of financial statements except as contained in the City of Auburn annual financial statements.

Jointly Govern Organizations

Auburn-Williams Fire Protection District – The City of Auburn and Williams Township jointly govern the Auburn-Williams Fire Protection District. The funding formula requires the City provide 30% and Williams Township 70% of the operational and building costs. The District has title to all property, plant and equipment. All of the financial operations of the District are recorded in the Auburn-Williams Fire Protection District.

Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial

City of Auburn
Notes to Financial Statements
June 30, 2006

statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the City. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the City. Funding is primarily through state shared gas and weight taxes.

The Street Repair Millage Fund accounts for taxes levied for road construction and improvements.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following:

The nonmajor special revenue fund, Building Inspection Fund, accounts for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The debt service funds, 2000 Midland Road Bond Fund, 2000 Michigan Road Transportation Bond Fund, and 1992 Auburn Drain Fund, account for the accumulation of resources for, and payment of governmental activities principal, interest and related costs.

City of Auburn
Notes to Financial Statements
June 30, 2006

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

The Deferred Compensation Trust Fund accounts for amounts withheld from employees' pay in accordance with the Internal Revenue Code section 457.

The Payroll Fund and Current Tax Collection Fund account for payroll expenses and property tax and other deposits collected on behalf of other units and individuals, respectively.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated

resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, liabilities, and net assets or equity

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding

City of Auburn
Notes to Financial Statements
June 30, 2006

between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on February 15th of the following year, at which time penalties and interest are assessed.

The 2005 taxable valuation of the government totaled \$48,870,547, on which ad valorem taxes consisted of 10.0625 mills for operating purposes, 5.0 for the Auburn drain, and 0.9375 mills for road repairs. This resulted in \$415,833 for operating expenses, \$45,980 for the Auburn drain, and \$244,418 for road repairs, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Prepaid items – Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	40 to 60 years
Building improvements	15 to 30 years
Roads	20 to 40 years
Other infrastructure	20 to 40 years
Water and sewer lines	50 to 75 years
Vehicles	3 to 5 years

Compensated absences – It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits, which will be paid to employees upon separation from the City. Sick leave is paid only upon retirement and is limited to the lesser of one-half of the total accumulation or 60 days. Employees are paid all of their accumulated vacation pay upon termination of employment for any reason. All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as

City of Auburn
Notes to Financial Statements
June 30, 2006

other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

Comparative data

Comparative data is not included in the government's financial statements.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

Prior to the first meeting held in June, the City Administrator submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to July 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The City

Administrator is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the City Council commission.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

Excess of expenditures over appropriations

The City had the following excess of expenditures over appropriations:

	<u>Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund			
Recreation and culture	\$ 62,800	\$ 63,036	\$ 236
Downtown Development Authority	112,600	235,876	123,276

NOTE 3 - DEPOSITS AND INVESTMENTS

At year end the government's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Cash and Cash Equivalents</u>
Governmental activities	\$ 1,208,988
Business-type activities	<u>281,741</u>
Total primary government	1,490,729
Component unit	<u>443,648</u>
Total	<u>\$ 1,934,377</u>

City of Auburn
Notes to Financial Statements
June 30, 2006

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 1,490,579	\$ 443,648
Petty cash and cash on hand	<u>150</u>	<u>-</u>
	<u>\$ 1,490,729</u>	<u>\$ 443,648</u>

Interest rate risk – The government does not have a formal investment policy to manage its exposure to fair value losses from changes in interest rates.

Credit risk – State statutes and the government's investment policy authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

Concentration of credit risk – The government has no policy that would limit the amount that may be issued in any one issuer.

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for

custodial credit risk. As of year end, \$ 1,159,931 was exposed to custodial credit risk because it was uninsured and uncollateralized.

NOTE 4 - RECEIVABLES AND DEFERRED REVENUE

The only receivable not expected to be collected within one year is as follows:

	Due After One Year	Fund
Primary government		
Special assessments	<u>\$ 23,985</u>	General Fund

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>
Primary government	
State shared revenue	\$ 36,217
Special assessments	<u>23,985</u>
	<u>\$ 60,202</u>

NOTE 5 - CAPITAL ASSETS

Capital assets activity of the primary government for the current year was as follows:

City of Auburn
Notes to Financial Statements
June 30, 2006

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 61,570	\$ -	\$ -	\$ 61,570
Capital assets being depreciated				
Land improvements	209,385	-	-	209,385
Infrastructure	67,512	396,766	-	464,278
Buildings, additions and improvements	215,372	-	-	215,372
Machinery and equipment	642,058	7,882	-	649,940
Vehicles	89,793	-	-	89,793
Total capital assets being depreciated	1,224,120	404,648	-	1,628,768
Less accumulated depreciation for				
Land improvements	178,875	6,107	-	184,982
Infrastructure	1,688	13,296	-	14,984
Buildings, additions and improvements	101,435	7,668	-	109,103
Machinery and equipment	353,602	47,852	-	401,454
Vehicles	74,280	2,387	-	76,667
Total accumulated depreciation	709,880	77,310	-	787,190
Net capital assets being depreciated	514,240	327,338	-	841,578
Governmental activities capital assets, net	\$ 575,810	\$ 327,338	\$ -	\$ 903,148
Business-type activities				
Capital assets not being depreciated				
Land	\$ 36,000	\$ -	\$ -	\$ 36,000
Construction in progress	4,641	-	4,641	-
Total capital assets not being depreciated	40,641	-	4,641	36,000
Capital assets being depreciated				
Water system	2,097,512	298,268	-	2,395,780
Sewer system	1,804,939	2,059	-	1,806,998
Total capital assets being depreciated	3,902,451	300,327	-	4,202,778
Less accumulated depreciation for				
Water system	546,210	42,346	-	588,556
Sewer system	691,354	36,223	-	727,577
Total accumulated depreciation	1,237,564	78,569	-	1,316,133
Net capital assets being depreciated	2,664,887	221,758	-	2,886,645
Business-type capital assets, net	\$ 2,705,528	\$ 221,758	\$ 4,641	\$ 2,922,645

Capital assets activity of the component unit for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Component Unit				
Capital assets not being depreciated				
Land	\$ 13,000	\$ -	\$ -	\$ 13,000
Capital assets being depreciated				
Land improvements	12,581	-	-	12,581
Buildings, additions and improvements	134,471	-	134,471	-
Total capital assets being depreciated	147,052	-	134,471	12,581
Less accumulated depreciation for				
Land improvements	503	503	-	1,006
Buildings, additions and improvements	2,421	-	2,421	-
Total accumulated depreciation	2,924	503	2,421	1,006
Net capital assets being depreciated	144,128	(503)	132,050	11,575
Component unit capital assets, net	\$ 157,128	\$ (503)	\$ 132,050	\$ 24,575

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities	
General government	\$ 4,882
Public safety	6,187
Public works	14,085
Recreation and culture	11,597
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	40,559
Total governmental activities	77,310
Business-type activities	
Sewer	36,223
Water	42,346
Total business-type activities	78,569
Total primary government	\$ 155,879

City of Auburn
Notes to Financial Statements
June 30, 2006

NOTE 6 - CONSTRUCTION COMMITMENT

As of year end, the City had the following construction contract in progress:

<u>Project</u>	<u>Total Contract</u>	<u>Remaining Construction Commitment at Year End</u>	<u>Contract Payable at Year End</u>
2006 Water Main & Pavement Improvements	\$ 19,500	\$ 14,257	\$ 5,243

Contract payable at year end represent actual contractor billings and are recorded in both the Local Street Fund and in the Water Fund. The project will be completed in fiscal year 2007.

NOTE 7 - INTERFUND RECEIVABLES, PAYABLE, AND TRANSFERS

The composition of interfund balances is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Due from/to other funds		
Local Street	Major Street	\$ 4,122

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Advances at year end are as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Advances due to/from other funds		
General	Water	\$ 285,000

The advance was made for water main improvements. Annual principal payments of \$25,000 plus 5% annual interest will be made until the advance is paid in full in 2018.

The details for interfund transfers are as follows:

<u>Funds Transferred From</u>	<u>Funds Transferred To</u>	<u>Amount</u>
General Fund	Water Fund	\$ 12,400
Major Street	Local Street	24,963
Street Repair Millage Fund	Local Street	266,323
Street Repair Millage Fund	Other governmental funds	86,001
General Fund	Other governmental funds	45,980
		<u>\$ 435,667</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs. The Street Repair Millage Fund and the Major Street Fund transferred revenues to the Local Street Fund for the construction of roadways. In addition, the Street Repair Millage Fund transferred funds to other governmental funds for the payment of debt.

City of Auburn
Notes to Financial Statements
June 30, 2006

NOTE 8 - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund.

Long-term obligation activity is summarized as follows:

	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities								
Bonds and notes payable								
General obligation bonds								
2000 Midland Road Bonds	2013	6.00%	\$29,929	\$ 239,432	\$ -	\$ 29,929	\$ 209,503	\$ 29,929
2000 Michigan Transportation Bonds	2015	5.35% - 5.60%	\$35,000 - \$60,000	435,000	-	35,000	400,000	35,000
1992 Auburn Drain	2015	5.35% - 5.60%	\$15,000 - \$25,000	<u>210,000</u>	<u>-</u>	<u>15,000</u>	<u>195,000</u>	<u>15,000</u>
Total bonds payable				884,432	-	79,929	804,503	79,929
Compensated absences				<u>60,711</u>	<u>8,005</u>	<u>-</u>	<u>68,716</u>	<u>-</u>
Total governmental activities				<u>\$ 945,143</u>	<u>\$ 8,005</u>	<u>\$ 79,929</u>	<u>\$ 873,219</u>	<u>\$ 79,929</u>
Business-type activities								
Bonds and notes payable								
General obligation bonds								
Bay County Sewer Bonds	2008	5.50%	\$24,593 - \$27,600	<u>\$ 79,793</u>	<u>\$ -</u>	<u>\$ 27,600</u>	<u>\$ 52,193</u>	<u>\$ 27,600</u>

City of Auburn
Notes to Financial Statements
June 30, 2006

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending December 31,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 79,929	\$ 46,628	\$ 27,600	\$ 3,036
2008	84,929	41,978	24,593	1,518
2009	89,929	37,034	-	-
2010	89,929	31,788	-	-
2011	94,929	26,512	-	-
2012-2016	364,858	50,066	-	-
	<u>\$ 804,503</u>	<u>\$ 234,006</u>	<u>\$ 52,193</u>	<u>\$ 4,554</u>

NOTE 9 - RISK MANAGEMENT

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 10 - EMPLOYEE RETIREMENT AND BENEFIT SYSTEMS

Defined benefit pension plan

Plan description – The government participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the government. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report

may be obtained by writing to MERS at 447 N. Canal Rd., Lansing, Michigan 48917.

Funding policy – The obligation to contribute to and maintain the system for these employees was established by negotiation with the government's competitive bargaining units and requires a contribution from the employees of 3 percent of gross wages for the first \$4,200 of wages earned and 5% thereafter, for full time employees.

Annual pension costs – For year ended 2005, the government's annual pension cost of \$32,006 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry age normal cost method. Significant actuarial assumptions used include: 1) a 8 percent investment rate of return; 2) projected salary increases of 4.5 percent per year; and 3) 4.5 percent per year cost of living adjustments. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

Three year trend information as of December 31, 2005 follows:

	2005	2004	2003
Annual pension cost	\$ 31,200	\$ 27,769	\$ 25,269
Percentage of APC contributed	100%	100%	100%
Actuarial value of assets	1,179,536	1,094,054	1,013,511
Actuarial accrued liabilities	1,353,218	1,306,460	1,211,283
Unfunded AAL	173,682	212,406	197,772
Funded ratio	87.0%	84.0%	84.0%
Covered payroll	321,788	327,134	307,741
UAAL as a percentage of covered payroll	54%	65%	64%

City of Auburn
Notes to Financial Statements
June 30, 2006

NOTE 11 - CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes				
Property taxes	\$ 455,742	\$ 457,042	\$ 461,939	\$ 4,897
Penalties and interest	3,003	5,090	4,911	(179)
Administration fee	5,000	5,800	5,834	34
Licenses and permits	20,900	20,900	20,196	(704)
State revenue sharing	192,000	192,000	189,884	(2,116)
Charges for services	105,500	107,700	108,879	1,179
Fines and forfeitures	1,000	1,000	692	(308)
Interest income	10,000	14,000	25,461	11,461
Rental income	4,000	5,100	5,629	529
Other revenue	44,600	13,300	35,507	22,207
	<u>841,745</u>	<u>821,932</u>	<u>858,932</u>	<u>37,000</u>
Expenditures				
General government				
Township board	4,900	4,900	4,421	(479)
Manager	86,560	86,560	80,771	(5,789)
Audit	2,000	2,200	2,005	(195)
Board of review	500	800	407	(393)
Treasurer	50,245	46,245	43,419	(2,826)
Assessor	16,000	18,356	13,843	(4,513)
Elections	11,460	13,740	10,255	(3,485)
Buildings and grounds	40,600	37,600	31,375	(6,225)
Attorney	2,500	2,500	350	(2,150)
	<u>214,765</u>	<u>212,901</u>	<u>186,846</u>	<u>(26,055)</u>

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
General Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Public safety				
Police	\$ 186,825	\$ 186,825	\$ 177,308	\$ (9,517)
Fire department	58,000	58,000	57,615	(385)
Total public safety	<u>244,825</u>	<u>244,825</u>	<u>234,923</u>	<u>(9,902)</u>
Public works				
Department of public works	55,150	69,650	62,087	(7,563)
Sidewalks	30,800	37,500	34,194	(3,306)
Street lighting	22,000	22,000	21,268	(732)
Sanitary land fill	102,000	102,000	101,254	(746)
Total public works	<u>209,950</u>	<u>231,150</u>	<u>218,803</u>	<u>(12,347)</u>
Community and economic development				
Planning	7,600	8,200	6,278	(1,922)
Zoning	1,300	1,300	797	(503)
Total community and economic development	<u>8,900</u>	<u>9,500</u>	<u>7,075</u>	<u>(2,425)</u>
Recreation and culture				
Parks and recreation	<u>70,400</u>	<u>62,800</u>	<u>63,036</u>	<u>236</u>
Other functions				
Contingency	<u>2,700</u>	<u>-</u>	<u>-</u>	<u>-</u>
Capital outlay	<u>65,000</u>	<u>52,000</u>	<u>46,747</u>	<u>(5,253)</u>
Transfers out	<u>56,700</u>	<u>58,800</u>	<u>58,381</u>	<u>(419)</u>
Total expenditures	<u>873,240</u>	<u>871,976</u>	<u>815,811</u>	<u>(56,165)</u>
Excess (deficiency) of revenues over expenditures	(31,495)	(50,044)	43,121	93,165
Fund balance - beginning of year	<u>828,514</u>	<u>828,514</u>	<u>828,514</u>	<u>-</u>
Fund balance - end of year	<u>\$ 797,019</u>	<u>\$ 778,470</u>	<u>\$ 871,635</u>	<u>\$ 93,165</u>

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
Major Street Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State revenue sharing	\$ 100,000	\$ 100,000	\$ 99,851	\$ (149)
Other state grants	4,000	4,000	2,108	(1,892)
Interest income	500	500	512	12
Other revenue	-	-	103	103
Transfers in	130,000	-	-	-
	<u>234,500</u>	<u>104,500</u>	<u>102,574</u>	<u>(1,926)</u>
Total revenues				
Expenditures				
Current				
Public works	75,260	75,680	61,440	(14,240)
Capital outlay	130,000	90,000	78,141	(11,859)
Transfers out	25,000	25,000	24,963	(37)
	<u>230,260</u>	<u>190,680</u>	<u>164,544</u>	<u>(26,136)</u>
Total expenditures				
Excess (deficiency) of revenues over expenditures	4,240	(86,180)	(61,970)	24,210
Fund balance - beginning of year	114,510	114,510	114,510	-
Fund balance - end of year	<u>\$ 118,750</u>	<u>\$ 28,330</u>	<u>\$ 52,540</u>	<u>\$ 24,210</u>

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
Local Street Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
State revenue sharing	\$ 41,000	\$ 41,000	\$ 40,281	\$ (719)
Other state grants	2,500	2,500	4,280	1,780
Interest income	50	50	102	52
Other revenue	-	-	148	148
Transfers in	105,000	325,000	291,286	(33,714)
Total revenues	148,550	368,550	336,097	(32,453)
Expenditures				
Current				
Public works	86,010	105,310	88,310	(17,000)
Capital outlay	80,000	280,000	259,409	(20,591)
Total expenditures	166,010	385,310	347,719	(37,591)
Excess (deficiency) of revenues over expenditures	(17,460)	(16,760)	(11,622)	5,138
Fund balance - beginning of year	30,839	30,839	30,839	-
Fund balance - end of year	\$ 13,379	\$ 14,079	\$ 19,217	\$ 5,138

City of Auburn
Required Supplemental Information
Budgetary Comparison Schedule
Street Repair Millage Fund
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 240,000	\$ 240,000	\$ 244,442	\$ 4,442
Interest income	1,000	1,000	6,348	5,348
Total revenues	241,000	241,000	250,790	9,790
Expenditures				
Current				
Public works	25	25	-	(25)
Transfers out	296,550	386,550	352,323	(34,227)
Total expenditures	296,575	386,575	352,323	(34,252)
Excess (deficiency) of revenues over expenditures	(55,575)	(145,575)	(101,533)	44,042
Fund balance - beginning of year	327,413	327,413	327,413	-
Fund balance - end of year	\$ 271,838	\$ 181,838	\$ 225,880	\$ 44,042

City of Auburn
Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	Special Revenue Fund	Debt Service Funds			
	Building Inspection	2000 Midland Road Bonds	2000 Michigan Transportation Bonds	1992 Auburn Drain	Total Nonmajor Governmental Funds
Assets					
Cash and cash equivalents	\$ 9,811	\$ 20	\$ 20	\$ 3,252	\$ 13,103
Receivables					
Customers	<u>203</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>203</u>
Total assets	<u>\$ 10,014</u>	<u>\$ 20</u>	<u>\$ 20</u>	<u>\$ 3,252</u>	<u>\$ 13,306</u>
Fund Balances					
Reserved for:					
Debt service	\$ -	\$ 20	\$ 20	\$ 3,252	\$ 3,292
Unreserved					
Undesignated	<u>10,014</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,014</u>
Total fund balances	<u>\$ 10,014</u>	<u>\$ 20</u>	<u>\$ 20</u>	<u>\$ 3,252</u>	<u>\$ 13,306</u>

City of Auburn
Other Supplemental Information
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2006

	Special Revenue Fund	Debt Service Funds			Total Nonmajor Governmental Funds
	Building Inspection	2000 Midland Road Bonds	2000 Michigan Transportation Bonds	1992 Auburn Drain	
Revenues					
Licenses and permits	\$ 413	\$ -	\$ -	\$ -	\$ 413
Interest income	12	-	-	75	87
Total revenues	<u>425</u>	<u>-</u>	<u>-</u>	<u>75</u>	<u>500</u>
Expenditures					
Current					
Public safety	3,944	-	-	-	3,944
Debt service					
Principal retirement	-	15,000	35,000	29,929	79,929
Interest and fiscal charges	-	11,818	24,183	15,802	51,803
Total expenditures	<u>3,944</u>	<u>26,818</u>	<u>59,183</u>	<u>45,731</u>	<u>135,676</u>
Deficiency of revenues under expenditures	<u>(3,519)</u>	<u>(26,818)</u>	<u>(59,183)</u>	<u>(45,656)</u>	<u>(135,176)</u>
Other financing sources					
Transfers in	-	26,818	59,183	45,980	131,981
Net change in fund balance	(3,519)	-	-	324	(3,195)
Fund balance - beginning of year	<u>13,533</u>	<u>20</u>	<u>20</u>	<u>2,928</u>	<u>16,501</u>
Fund balance - end of year	<u>\$ 10,014</u>	<u>\$ 20</u>	<u>\$ 20</u>	<u>\$ 3,252</u>	<u>\$ 13,306</u>

City of Auburn
Other Supplemental Information
Component Unit - Downtown Development Authority
Budgetary Comparison Schedule
For the Year Ended June 30, 2006

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Revenues				
Taxes	\$ 155,000	\$ 155,000	\$ 177,818	\$ 22,818
Interest income	1,000	1,000	12,806	11,806
Sale of fixed assets	-	-	57,889	57,889
Total revenues	<u>156,000</u>	<u>156,000</u>	<u>248,513</u>	<u>92,513</u>
Expenditures				
Current				
Community and economic development	7,900	7,900	5,611	(2,289)
Capital outlay	<u>104,700</u>	<u>104,700</u>	<u>230,265</u>	<u>125,565</u>
Total expenditures	<u>112,600</u>	<u>112,600</u>	<u>235,876</u>	<u>123,276</u>
Excess (deficiency) of revenues over expenditures	43,400	43,400	12,637	(30,763)
Fund balance - beginning of year	<u>431,952</u>	<u>431,952</u>	<u>431,952</u>	<u>-</u>
Fund balance - end of year	<u>\$ 475,352</u>	<u>\$ 475,352</u>	<u>\$ 444,589</u>	<u>\$ (30,763)</u>

City of Auburn
Component Unit - Downtown Development Authority
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2006

Net change in fund balances - Total governmental funds	\$ 12,637
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Total change in net assets reported for governmental activities in the statement of activities
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(503)
Sale of capital assets	<u>(132,050)</u>

Change in net assets of governmental activities	\$ <u>(119,916)</u>
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City of Auburn
Other Supplemental Information
Schedule of Indebtedness
June 30, 2006

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Governmental Activities						
2000 Midland Road Bonds	5.35%	2007	\$ 15,000	\$ 5,374	\$ 5,374	\$ 25,748
	5.40%	2008	20,000	4,973	4,973	29,946
	5.45%	2009	20,000	4,433	4,433	28,866
	5.50%	2010	20,000	3,888	3,888	27,776
	5.50%	2011	20,000	3,338	3,338	26,676
	5.55%	2012	25,000	2,788	2,788	30,576
	5.55%	2013	25,000	2,094	2,094	29,188
	5.60%	2014	25,000	1,400	1,400	27,800
	5.60%	2015	25,000	700	700	26,400
			<u>\$ 195,000</u>	<u>\$ 28,988</u>	<u>\$ 28,988</u>	<u>\$ 252,976</u>
2000 Michigan Transportation Bonds	5.35%	2007	\$ 35,000	\$ 11,026	\$ 11,026	\$ 57,052
	5.40%	2008	35,000	10,090	10,090	55,180
	5.45%	2009	40,000	9,145	9,145	58,290
	5.50%	2010	40,000	8,055	8,055	56,110
	5.50%	2011	45,000	6,955	6,955	58,910
	5.55%	2012	45,000	5,718	5,718	56,436
	5.55%	2013	45,000	4,469	4,469	53,938
	5.60%	2014	55,000	3,220	3,220	61,440
	5.60%	2015	60,000	1,680	1,680	63,360
			<u>\$ 400,000</u>	<u>\$ 60,358</u>	<u>\$ 60,358</u>	<u>\$ 520,716</u>

City of Auburn
Other Supplemental Information
Schedule of Indebtedness
June 30, 2006

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Interest	Total
Governmental Activities						
Auburn Drain Contract	6.00%	2007	\$ 29,929	\$ 6,914	\$ 6,914	\$ 43,757
	6.00%	2008	29,929	5,926	5,926	41,781
	6.00%	2009	29,929	4,939	4,939	39,807
	6.00%	2010	29,929	3,951	3,951	37,831
	6.00%	2011	29,929	2,963	2,963	35,855
	6.00%	2012	29,929	1,976	1,976	33,881
	6.00%	2013	29,929	988	988	31,905
			<u>\$ 209,503</u>	<u>\$ 27,657</u>	<u>\$ 27,657</u>	<u>\$ 264,817</u>
Business-type Activities						
Bay County Sewer Bonds	5.50%	2007	\$ 27,600	\$ 1,518	\$ 1,518	\$ 30,636
	5.50%	2008	24,593	759	759	26,111
			<u>\$ 52,193</u>	<u>\$ 2,277</u>	<u>\$ 2,277</u>	<u>\$ 56,747</u>



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October 30, 2006

To City Council
City of Auburn

In planning and performing our audit of the financial statements of the City of Auburn for the year ended June 30, 2006, we considered the City's internal control system to determine our auditing procedures for the purposes of expressing an opinion on the financial statements and not to provide assurance on the internal controls.

However, during our audit, we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments regarding those matters. This letter does not affect our report dated September 22, 2006, on the financial statements of the City of Auburn.

Status of Prior Year Comments

We have reviewed the status of comments and recommendations made in the prior year. The status of prior year comments is as follows:

<u>Comment</u>	<u>Implemented/ Situation Corrected</u>	<u>Progress Made</u>	<u>Situation Still Exists</u>
All checks written to replenish petty cash should not be made out to cash but rather to a specific individual.	X		
Check payments received at the City were not immediately stamped 'For Deposit Only'.	X		
Someone other than the individual performing the bank reconciliation should receive the bank statements unopened and monitor cancelled checks and or check images for alterations or unusual endorsements.	X		
Council minutes were not stored in an electronic format. Additional time was spent trying to locate the meeting minutes.	X		

Comments for the current year

Cash Collections

During the audit, we observed the City Clerk/Treasurer collecting cash and checks from customers and placing the cash or checks on the desk amongst all her files and documents. The cash was eventually placed into an envelope, but not in a timely manner. We recommend the City purchase a cash drawer to put the money into during the day while collecting cash and checks. Also, as part of this process the payment method should be indicated on the receipt at time of collection. We further recommend that at the end of the day, the cash receipts be reconciled with the drawer and a deposit slip completed. If the deposit is not made the same day, we recommend that the money be stored in the safe. This will help safeguard cash and protect the City Clerk/Treasurer from any potential allegations.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with City personnel. We will be pleased to discuss these items in further detail at your convenience, to perform any additional study of these matters or to assist you in implementing the recommendations.

Very truly yours,

YEO & YEO, P.C.
CPAs and Business Consultants

A handwritten signature in cursive script that reads "Michael Gensch".

Michael Gensch